

Message Text

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ORIGIN EUR-12

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DRAFTED BY EUR/EE:DNJOHNSON:LCB
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EUR/RPM:EREHFELD
PM/SAS:COL REISLING (INFO)
PM/SAS:IPERNICK (INFO)
EUR:WHLUERS
HA:CBRODY (INFO)
DOD/ISA:EMCVADON (INFO)
DOD:HGUILD (INFO)
-----128981 290135Z /61
R 282035Z AUG 78
FM SECSTATE WASHDC
TO AMEMBASSY BELGRADE

C O N F I D E N T I A L STATE 218262

E.O. 11652:GDS

TAGS: MILI, YO

SUBJECT: ARMS TRANSFERS TO YUGOSLAVIA - FY 80 BUDGET
PACKAGE

THIS MESSAGE CONTAINS THE TEXT OF THE "DECISION UNIT
OVERVIEW" AND THE "DECISION PACKAGE" ON SECURITY ASSIST-
ANCE TO YUGOSLAVIA FOR FY 80, AS REVISED AND ACCEPTED BY
THE INTERAGENCY REVIEW GROUP ON AUGUST 23. THE HEADINGS
ARE THOSE PRESCRIBED BY THE FORMAT.

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BEGIN TEXT: DECISION UNIT OVERVIEW

GOAL: TO ENCOURAGE AND SUPPORT YUGOSLAVIA IN ITS EFFORTS
TO REMAIN INDEPENDENT OF SOVIET DOMINATION, AND TO FOSTER
TRUST IN THE WEST'S ABILITY AND WILLINGNESS TO ASSIST
YUGOSLAVIA IN REALIZING THIS GOAL.

MAJOR OBJECTIVES: TO ACHIEVE A SUBSTANTIAL POLITICAL
IMPACT WITH THE YUGOSLAV ARMED FORCES -- A KEY NATIONAL
INSTITUTION NOW AND IN THE POST-TITO FUTURE -- THROUGH

BROADER CONTACTS BETWEEN OUR TWO MILITARY ESTABLISHMENTS AND THROUGH DIRECT US INVOLVEMENT IN SOME OF YUGOSLAVIA'S DEFENSE PROGRAMS.

CURRENT METHOD OF ACCOMPLISHING THE MAJOR OBJECTIVES:

FMS FINANCING: FOLLOWING THE TERMINATION OF THE LARGE US MILITARY SUPPLY PROGRAM IN THE 1950'S, THE YUGOSLAVS HAVE PURCHASED FOR CASH ABOUT \$1 MILLION ANNUALLY WORTH OF SPARES AND SUPPLIES FROM THE US. IN SEPTEMBER, 1977, THE PRESIDENT DECIDED THAT THE US SHOULD SEEK TO EXPAND THE ARMS SUPPLY RELATIONSHIP MODESTLY WITH EMPHASIS ON POLITICAL IMPACT. IN THE INTERVENING YEAR THERE HAVE BEEN SEVERAL HIGH-LEVEL VISITS BOTH WAYS BY SENIOR DEFENSE OFFICIALS, AND A RENEWED EFFORT TO BE RESPONSIVE TO YUGOSLAV REQUESTS. FMS SALES WITHIN THIS FISCAL YEAR (1978) HAVE REMAINED NEAR THE \$1 MILLION LEVEL, BUT ARE EXPECTED TO EXCEED \$10 MILLION IN FY 79 AND COULD GO STILL HIGHER IN FY 80. THE PRESIDENTIAL DECISION EXPLICITLY EXCLUDED FMS CREDIT SALES ON THE ASSUMPTION THAT YUGOSLAVIA WOULD NOT SEEK CREDITS. BUT THE YUGOSLAVS HAVE BEGUN DISCUSSIONS WITH US ON TWO MAJOR DEFENSE-RELATED ITEMS, A SOPHISTICATED COMMUNICATIONS SYSTEMS, VALUED AT ABOUT \$16 MILLION, AND AN ENGINE FOR THEIR NEW FIGHTER AIRCRAFT, VALUED AT \$20 MILLION OR MORE, DEPENDING UPON HOW MANY CONFIDENTIAL

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UNITS THEY WOULD PURCHASE. SOME SENIOR YUGOSLAV DEFENSE OFFICIALS HAVE RECENTLY RAISED THE QUESTION OF CREDITS FOR FUTURE PURCHASES, WITHOUT LINKING THEIR INQUIRIES TO ANY SPECIFIC SYSTEM AND WITHOUT MAKING A FORMAL REQUEST. THE ADMINISTRATION THEREFORE CONSIDERS THAT THE PROHIBITION ON FMS CREDIT SALES NO LONGER SERVES THE PURPOSES OF THE PRESIDENTIAL DECISION. THE AVAILABILITY OF A SMALL FMS CREDIT PROGRAM WOULD PERMIT THE MODEST EXPANSION OF SALES AND ENHANCE POLITICAL IMPACT WITH THE YUGOSLAV MILITARY WITHOUT UNDERMINING THE PRESIDENT'S ARMS CONTROL OBJECTIVES.

ALTERNATIVES: THROUGH DOMESTIC INDUSTRY, YUGOSLAVIA PRODUCES THE BULK OF ITS MILITARY EQUIPMENT NEEDS. FOR THE REST, HOWEVER, THE SOVIET UNION HAS BEEN YUGOSLAVIA'S PRINCIPAL SUPPLIER. A NUMBER OF WESTERN COUNTRIES, INCLUDING THE US, ARE ALSO TRADITIONAL BUT MODEST SUPPLIERS. AS YUGOSLAVIA LOOKS TO ITS FUTURE DEFENSE NEEDS, PARTICULARLY FOR THE PERIOD DURING AND AFTER THE POST-TITO SUCCESSION, IT SEEKS TO MAINTAIN DIVERSITY OF SOURCES OF SUPPLY AND TO AVOID DEPENDENCE ON ANY ONE SOURCE. THIS WILL REMAIN TRUE WHETHER OR NOT THE US PERMITS CREDIT SALES. BUT THE DEGREE OF US INFLUENCE WILL BE DETERMINED BY OUR REPOSNSIVENESS TO YUGOSLAV REQUESTS, AND THIS RESPONSIVENESS WILL BE MEASURED IN PART BY US WILLINGNESS TO PROVIDE CREDITS.

ACCOMPLISHMENTS: BY MAINTAINING A MILITARY SUPPLY
RELATIONSHIP WITH YUGOSLAVIA, WE ARE PROVIDING

AN ALTERNATIVE SOURCE OF MILITARY MATERIE. AND ENCOURAGING
MAINTENANCE OF ITS INDEPENDENT POLICY, THEREBY FURTHERING
US NATIONAL SECURITY INTERESTS. BECAUSE OF ITS LOCATION
IN THE BALKANS AND ON THE ADRIATIC, YUGOSLAVIA HAS AN
IMPORTANT BEARING ON OUR STRATEGIC CONCERNS IN THE
MEDITERRANIAN, ON NATO'S SOUTHERN FLANK, AND IN CENTRAL
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EUROPE. ACCORDINGLY, WE SUPPORT YUGOSLAVIA'S INDEPENDENCE,
TERRITORIAL INTEGRITY, AND POLITICAL UNITY IN ORDER TO
PROMOTE CONTINUED STABILITY IN THIS REGION. OUR STRATEGIC
INTERESTS IN THE EASTERN MEDITERRANIAN ARE WELL SERVED
IF YUGOSLAVIA REMAINS FREE OF UNDUE SOVIET INFLUENCE.

YUGOSLAVIA PROVIDES AN EXAMPLE TO OTHER COMMUNIST COUNTRIES
IN EASTERN EUROPE BY HAVING INTRODUCED MARKET CONSIDERA-
TIONS INTO ITS ECONOMY, DECENTRALIZING ITS GOVERNMENT,
OPENING ITS BORDERS AND SEEKING CLOSE TIES WITH THE US
AND THE WEST. IT HAS MAINTAINED ITS INDEPENDENCE FROM
THE SOVIET UNION SINCE 1948 AND HAS BEEN A LEADER IN
ESTABLISHING AND STRENGTHENING THE NONALIGNED ORIENTATION
TO WHICH THE MAJORITY OF DEVELOPING COUNTRIES ADHERE.

THE US GOAL OF PREVENTING FURTHER SOVIET ENCROACHMENT IN
THE BALKANS HAS DEPENDED IN PART ON MAINTAINING GOOD
RELATIONS WITH YUGOSLAVIA. THERE REMAINS A RESERVOIR OF
GOOD WILL ABOUT THE US, DATING FROM THE WARTIME AND THE
CLOSE MILITARY TIES IN THE 50'S. BUT ANOTHER GENERATION
HAS GROWN TO MATURITY SINCE THEN AND THE FUTURE OF OUR
RELATIONS IN THE POST-TITO ERA WILL DEPEND SIGNIFICANTLY
ON OUR WILLINGNESS NOW TO MEET YUGOSLAVIA'S FUTURE DEFENSE
REQUIREMENTS.

ADDITIONAL CONSIDERATIONS: HUMAN RIGHTS. WE FIND NO
DIRECT RELATIONSHIP BETWEEN THE HUMAN RIGHTS SITUATION IN
YUGOSLAVIA AND THE SECURITY ASSISTANCE PROGRAM, EXCEPT
IN SO FAR AS ACHIEVING OUR OBJECTIVES IN THAT PROGRAM
WILL SERVE TO PROMOTE CONTINUED YUGOSLAV INDEPENDENCE OF
SOVIET CONTROL AND INFLUENCE. EVEN IN A NON-CRISIS
SITUATION, A YUGOSLAVIA WHICH LACKED THE SELF-CONFIDENCE
PROVIDED BY A VIABLE CAPABILITY TO DEFEND ITSELF, AND
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WHICH THEREFORE FELT VULNERABLE TO SUBVERSION OR OUTRIGHT
MILITARY PRESSURE FROM THE USSR, WOULD LIKELY REVERT TO
STRICTER INTERNAL CONTROLS WITH ATTENDANT INCREASED
DEPRIVATION OF HUMAN RIGHTS. IN A CRISIS SITUATION, THIS

TENDENCY WOULD OF COURSE BE EVEN MORE PRONOUNCED, NOT TO MENTION THE REVERSION TO EXTREME POLICE STATE METHODS WHICH WOULD CERTAINLY ACCOMPANY ANY RETURN TO THE SOVIET FOLD. IT SHOULD ALSO BE KEPT IN MIND THAT THE YUGOSLAV MILITARY DOES NOT PLAY A DAY-TO-DAY ROLE IN INTERNAL SECURITY MATTERS IN YUGOSLAVIA, NOR WOULD WE EXPECT IT

TO DO SO UNLESS A SERIOUS INTERNAL OR EXTERNAL CRISIS DEVELOPED. EVEN IN THAT EVENT, THE EQUIPMENT AND CAPABILITIES LIKELY TO BE PROVIDED BY THE US IN THE COMING YEARS-- LARGELY ADVANCED TECHNOLOGY ITEMS LIKE AIRCRAFT ENGINES AND ELECTRONICS -- ARE NOT LIKELY TO PROVE USEFUL IN MAINTAINING DOMESTIC ORDER. WE THEREFORE BELIEVE THAT US HUMAN RIGHTS OBJECTIVES ARE FULLY COMPATIBLE WITH THE MILITARY ASSISTANCE OBJECTIVES SET FORTH ABOVE. HOWEVER, IN THE UNLIKELY EVENT WE SHOULD BE ASKED FOR EQUIPMENT WHICH WOULD SERVE PRIMARILY TO ENHANCE THE POLICE CAPABILITIES OF THE GOV AS DISTINCT FROM ITS MILITARY CAPABILITIES, WE WOULD OF COURSE CAREFULLY REVIEW THE SITUATION.

ARMS CONTROL. THE PRESIDENT'S DECISION ON ARMS TRANSFERS TO YUGOSLAVIA INCLUDES THE PROVISIO THAT "NO OFFENSIVE SYSTEMS WILL BE TRANSFERRED." SINCE THE PROPOSED PROGRAM WOULD REINFORCE YUGOSLAVIA'S DEFENSIVE CAPABILITY WITHOUT STIMULATING A REGIONAL ARMS COMPETITION, THERE ARE NO CURRENT ARMS CONTROL CONCERNS INVOLVED.

DECISION PACKAGE

ACTIVITY DESCRIPTION: TO PROVIDE MEANS TO FACILITATE A MODEST INCREASE IN ARMS TRANSFERS TO YUGOSLAVIA, IN RESPONSE TO YUGOSLAV REQUESTS.

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RESOURCE REQUIREMENTS (\$MILLIONS)

FMS FINANCING:

1978	1979	1980 REQUEST	1981 ESTIMATE	1982 ESTIMATE
0	0	10.0	12.0	15.0

SHORT-TERM OBJECTIVES: TO IMPLEMENT OUR POLICY OF EXPANDING OUR ARMS TRANSFER RELATIONSHIP WITH YUGOSLAVIA BY DEMONSTRATING A WILLINGNESS TO BE RESPONSIVE TO PROBABLE REQUESTS FOR CREDIT FINANCING FOR THE PURCHASE OF ONE OR MORE SPECIFIC US MILITARY SYSTEMS.

IMPACT ON MAJOR OBJECTIVES: THIS LEVEL OF FMS FINANCING WOULD CONSTITUTE A SIGNAL, ESPECIALLY TO THE YUGOSLAV MILITARY, OF OUR INTEREST IN SEEING YUGOSLAVIA FURTHER ENHANCE ITS ABILITY TO DEFEND ITS INDEPENDENCE AND TERRITORIAL INTEGRITY AS THE END OF THE TITO ERA APPROACHES.

BASIS FOR MINIMAL LEVEL: THE REQUESTED AMOUNT, \$10 MILLION, IS A REALISTIC MINIMUM IF WE HOPE TO BE ABLE TO SUPPORT

EFFECTIVELY THE CURRENT MODEST EXPANSION IN ARMS TRANSFERS TO YUGOSLAVIA. A LEVEL OF \$8 MILLION MIGHT CONCEIVABLY SUFFICE, DEPENDING UPON THE SPECIFIC ITEMS OF MATERIEL THE YUGOSLAVS DECIDE TO PURCHASE FROM US IN FY 80. ANY SUM LESS THAN \$8 MILLION WOULD PROBABLY BE INADEQUATE TO

TO PROMOTE THE SALE OF EITHER OF THE TWO MAJOR SYSTEMS -- THE ADVANCED COMMUNICATIONS SYSTEM OR THE JET AIRCRAFT ENGINE -- NOW UNDER DISCUSSION.

A DECISION NOT TO OFFER FMS CREDIT FINANCING COULD WELL BECOME AN UNNECESSARY LIMITATION ON THE FURTHER DEVELOPMENT OF OUR ARMS TRANSFER RELATIONSHIP WITH YUGOSLAVIA. MOREOVER, THE YUGOSLAVS MIGHT WELL PERCEIVE IT AS A SIGNAL OF OUR RELUCTANCE TO ESTABLISH EVEN A MODEST PROGRAM OF CONFIDENTIAL

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CREDIT FINANCING. END TEXT. CHRISTOPHER

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